# UNION GAS 1979 ANNUAL REPORT

**Cover and facing page:**

**Union Gas ranks among the largest merchandisers of gas appliances in Canada. Union's 30 "Appliance Centres" offer a wide variety of residential and commercial gas equipment, including ranges, dryers, water heaters, barbecues, space heaters, fireplaces, conversion burners and furnaces, plus some complementary electric units for added customer convenience.**

**Of all the different types of gas-burning equipment handled, one of the most versatile is the gas range. The story of the range — from initial design through manufacture and testing to final check-out in the customer's home — is presented in pictures commencing on Page 4 of this Report.**

**Union Gas Limited** was incorporated in 1911, and has its Head Office in Chatham, Ontario. As Canada's second largest natural gas utility, Union distributes gas to some 440,000 residential, commercial and industrial customers in Southwestern Ontario. In addition, Union operates storage and transmission facilities for use in serving its own markets as well as providing storage and transportation service under contract to other utilities.

In Western Canada, Union has significant involvement in gas and oil exploration activities through joint ventures, including two large programs and a number smaller in scope.

The Company's land development subsidiary, Major Holdings & Developments Limited, operates in the area served by Union and is involved in industrial, commercial and residential properties.

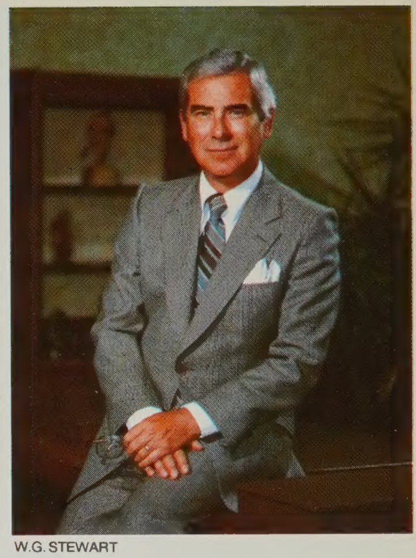
Union Gas common shares are owned 97% by Canadian residents. Geographical distribution of the holders of the 17,971,025 Class A and Class B Common Shares at March 31, 1979 is as follows:

| | Number of shareholders | Number of shares |
|---|---|---|
| Alberta | 291 | 394,258 |
| British Columbia | 741 | 333,401 |
| Manitoba | 258 | 1,269,003 |
| New Brunswick | 129 | 42,095 |
| Newfoundland | 19 | 8,047 |
| Northwest Territories | 2 | 375 |
| Nova Scotia | 237 | 130,476 |
| Ontario | 10,054 | 12,155,826 |
| Prince Edward Island | 31 | 14,406 |
| Quebec | 1,310 | 2,968,401 |
| Saskatchewan | 101 | 98,509 |
| Yukon | 1 | 200 |
| Total Canadian | 13,174 | 17,414,997 |
| United States | 368 | 399,882 |
| Other Countries | 160 | 156,146 |
| Total | 13,702 | 17,971,025 |

**Contents**


Enterprise
CANADA'S FINEST
RANGES

C.M. HARDING



W.G. STEWART

## Comparative highlights

| | 1979 (metric) | Year ended March 31 1979 | 1978 |
|---|---|---|---|
| Total revenues | | **$623,041,000** | $539,338,000 |
| Income for the year | | **$ 26,759,000** | $ 26,560,000† |
| Basic earnings per common share | | **$ 1.22** | $ 1.30† |
| Dividends declared per common share* | | **$ .74** | $ .74 |
| Weighted average number of common shares outstanding | | **17,948,962** | 17,934,386 |
| Natural gas sales — million cubic metres / million cubic feet | 6 746 | **239,396** | 240,915 |
| Total customers at year end | | **440,000** | 429,000 |
| Average gas use per customer — Cubic metres / thousand cubic feet | | | |
| residential | 3 685 | **130.8** | 131.2 |
| commercial | 28 056 | **995.8** | 987.4 |
| Maximum day send-out — million cubic metres / million cubic feet | 72 | **2,546** | 2,381 |
| Net expenditure on utility properties | | **$ 61,173,000** | $ 59,718,000 |
| Total assets | | **$735,132,000** | $617,251,000 |

† Before extraordinary item
* Annual rate per class A common share at year end

## Letter to shareholders

For Union Gas the 1979 fiscal year was one of progress in the face of some difficulties and uncertainties. The natural gas industry generally advanced in public acceptance, as awareness grew that this relatively abundant energy source has an even greater role to play in the future than in the past. Translating that increasing confidence into sales and earnings requires time, effort and the stimulus of a more buoyant economy than Canada currently enjoys.

Earnings for the fiscal year were $1.22 per share, compared with earnings of $1.30 per share for the previous year. Earnings for fiscal 1978 have been re-stated from the previously reported level as a result of a change in the basis of determining the cost of gas, as explained in the Notes to the Financial Statements.

While sales revenues grew significantly — by approximately 17% — the increase primarily represents the passing on to customers of the higher costs the Company must pay for its supplies of natural gas. These prices are set by the Government of Canada under its policy of allowing the price of Canadian oil and natural gas to rise towards world levels. In the industrial market residual oil continued to provide severe competition, though the Company was largely successful in holding its markets in the face of this competition. The residential market remained vigorous and provided the Company with most of the 11,000 new customers acquired during the year. Colder than normal weather contributed to a very satisfactory sales record. On February 17, 1979 the total volume of gas delivered to Union's customers and to other utilities was 2.5 BCF, the highest single day volume in the history of the Company.

The capital expenditure program in fiscal 1979 amounted to $61.2 million on utility properties and was the highest ever for the Company. A major element in the capital program was the expansion of storage and transmission facilities. The directors have approved a $57.5 million capital expenditure program for the current fiscal year.

In June 1978 the Company entered into a Joint Venture Agreement with Canadian Reserve Oil and Gas Ltd. under which the Company will participate in significant oil and gas exploration activities in Western Canada. The agreement with Canadian Reserve followed by a year the signing of an earlier Joint Venture Agreement with Hudson's Bay Oil and Gas Company Limited. During the fiscal year expenditures by Union in Western Canada under these two joint venture agreements amounted to $32 million. Expenditures at approximately the same level are budgeted for the current fiscal year.

Since the activities under both the Hudson's Bay and the Canadian Reserve agreements are at this stage primarily devoted to exploration, the associated costs are being deferred on the Company's books until the production stage is reached and revenue begins to flow. Market conditions will largely govern the timing of this stage.

Results of drilling programs to date have been satisfactory, in the view of the Company. Union's involvement in this aspect of the oil and gas industry is in keeping with the Canadian objective of developing all types of indigenous energy resources as a means of attaining energy self sufficiency.

The National Energy Board in February 1979 issued a report on Natural Gas Supply and Demand. The Board determined that there was only a relatively small surplus available for export. Union, along with others in the natural gas industry, is confident that substantial additional gas supplies remain to be discovered and proven but strongly supports the Board in its determination to exercise the utmost caution with regard to exports.

During the fiscal year Federal and Alberta energy authorities undertook the development of an incentive program designed to make natural gas economically attractive to potential customers who at present, for geographic or other reasons, are committed to other fuels. A program of this nature is obviously complex and will take some time to develop. Union has assured government authorities of its desire to co-operate in this attempt to expand natural gas markets and has participated in discussions involving government and industry representatives.

During the past fiscal year it has become evident that important changes are taking place in the regulatory field in Ontario. The Ontario Energy Board is instituting new systems and altering some procedures in an attempt to improve the process. This in turn requires some changes in the approach of applicants and other participants, particularly with regard to the filing of information prior to the commencement of hearings. Union is hopeful that the changes will lead to increased efficiency on the part of all involved in the regulatory process.

One of the Company's key concerns during the fiscal year related to the supply of synthetic natural gas from Petrosar Limited. This gas, which is fully equivalent to natural gas, is produced by the Petrosar petrochemical plant at Corunna, Ontario. It was contracted for several years ago by Union Gas in order to protect its customers against widely anticipated supply shortages. The cost is now substantially higher than the cost of the natural gas which makes up the Company's basic supply. Union has negotiated an export sale of this gas which, if approved, will return to Union a substantial portion of this premium cost. The Company has requested recovery of the remainder of the premium cost of this gas on a basis similar to that used for the support of synthetic oil development. Discussions with both the Federal Government and the Government of Ontario are continuing on this matter. The costs of the Petrosar supply are presently being deferred under Accounting Orders issued by the Ontario Energy Board. (See Note 5, page 18.)

A company's record of achievement is measured in tables and graphs, and is influenced by conditions, circumstances and events beyond the company's own boundaries and areas of control. A company's achievements, however, are produced by the abilities of its people and the dedication with which those abilities are applied to the solution of problems and the utilization of opportunities. The people of Union Gas have indeed served with ability and dedication. The Board, on behalf of the shareholders, expresses its thanks.

On behalf of the Board of Directors,

C.M. Harding

Chairman of the Board

N.E. Stewart

President and Chief Executive Officer

Chatham, Ontario, May 9, 1979

Creation of a new gas range begins with the development of the basic design, most often involving refinement of the best features of earlier models and the introduction of imaginative new concepts. One recent innovation is a burner ignited by an electronically-generated spark rather than the traditional pilot flame. Spark ignition makes today's gas range more energy efficient. Later this year, Union expects to have available a gas range equipped with a microwave oven as well as a conventional oven, for extra flexibility.

## Review of operations

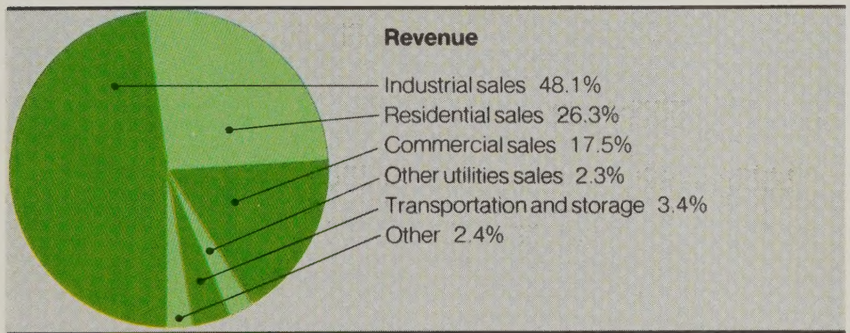
### Financial

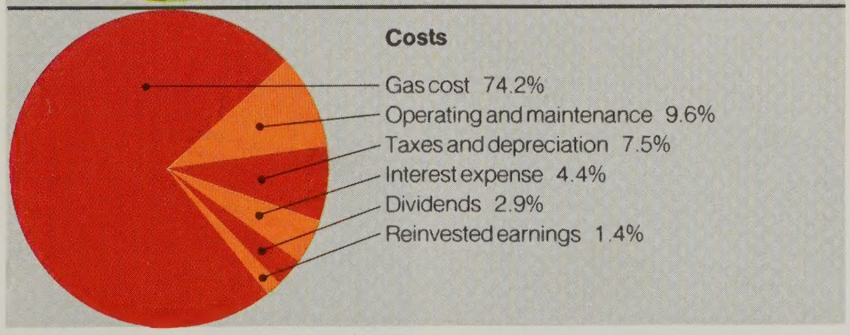
**Revenue:** Total revenue received in the 1979 fiscal year was $623.0 million, an increase of $83.7 million or 15.5% over that of the previous fiscal year.

While gas sales revenue rose by 17% to $588 million, the volume of gas sold in the 1979 fiscal year declined by 1.5 billion cubic feet (BCF) to 239.4 BCF. The higher gas sales revenue reflects higher rates to customers to recover gas cost increases, as well as a rate increase granted by the Ontario Energy Board (OEB), effective February 15, 1978, to recover a revenue deficiency found by that Board. Increased sales to most classes of customers were offset by a reduction of some 3% in industrial sales. The weather during the 1979 fiscal year, although 4.7% colder than normal, was 1.8% warmer than the previous year. As well, conservation measures by our customers continued to affect consumption levels. However, sales to some 11,000 additional customers added during the year more than offset the effect of the conservation measures.

Revenue from transportation and storage of gas was $20.9 million. This is a decrease of $3.7 million from the level of $24.6 million reported for fiscal 1978. Included in 1978 was a non-recurring item of some $5.3 million arising from emergency gas deliveries to the United States. The decrease was offset somewhat by higher revenues from other storage and transportation service, primarily under short term contracts.

"Other revenue", the main components of which are revenue from service work and equipment rental, increased by $2.1 million or 17.9% to $14.2 million.




**Costs:** Total expenses for fiscal 1979 were $572.9 million, an increase of $82.5 million or 16.8%. Cost of gas rose by $71.8 million or 18.3%, entirely as a result of price increases as sales declined marginally by 1.5 BCF. Union's average cost per MCF of gas purchased from TransCanada PipeLines was $1.91, compared to $1.61 for the previous fiscal year. The continuing rise in the cost of gas to Union results from higher rates paid to TransCanada under National Energy Board rate orders issued following determination by the Federal Government of price increases for natural gas and oil under the Petroleum Administration Act.

Operating and maintenance costs were held to an 8.9% increase. Higher costs of materials and supplies, increased labour-related costs and a higher level of customer service expense were the main factors in this increase.

A larger average amount of long-term debt outstanding at a higher average interest rate, as well as significant increases in short-term borrowing rates, resulted in total interest expense of $27.5 million, up $3.6 million from the previous fiscal year.

**Level of return:** For the utility operation the earnings of the Company are regulated by the OEB on the basis of a rate of return on rate base. Return for this purpose is annual utility earnings after income tax, but before interest costs. A utility's rate base is generally considered to be composed of the year-end investment in utility plant, less accumulated depreciation, and with provision for certain items of working capital.

In determining the rate of return to be allowed, the OEB applies cost levels to each component of the capital structure of the utility company. The capital structure of Union Gas Limited at March 31, 1979, with comparable amounts at March 31, 1978, is shown in the table on page 9.

The last determination of a fair and reasonable rate of return on rate base for the Company was made by the OEB in its decision dated July 7, 1978. This was found to be 10.58%, based on the capital structure and related cost components applicable to the 1978 fiscal year. For the year ended March 31, 1979 the Company calculates the return based on actual results to be 10.1%, compared with 10.3% for fiscal 1978.

**Financing:** In September 1978 the Company issued for private sale two million 7% Cumulative Redeemable Class B Preference Shares, Series 3, with a par value of $20 each. Proceeds from the

sale of these shares were used to reduce bank loans and other short-term borrowings.

**Dividends:** During 1978 amendments were made to the Income Tax Act (Canada) prohibiting the payment of tax-deferred dividends out of 1971 capital surplus on hand after December 31, 1978, which had previously been permissible. However, that Act was also amended to afford special treatment to stock dividends paid by a public corporation.

At the Annual Meeting of Shareholders on June 22, 1978, the shareholders approved the alteration of the attributes of the Company's Class A and Class B Common Shares to authorize the directors to declare stock dividends on the Class B Common Shares. Accordingly, the first of such stock dividends was declared payable on February 1, 1979. (See Note 8 to the Financial Statements.)

**Effect of inflation:** In a period of high inflation, there is widespread concern over the fact that traditional accounting practices do not adequately reflect current and future replacement costs.

Although cost of utility service, return on investment and utility revenue requirements of the Company are determined by the OEB by reference to historical cost and not on a basis of current value, the Company has, for information purposes only, made an estimate based on general price level changes. This will assist shareholders in assessing the impact of inflation.

The costs of plant and accumulated depreciation thereon are provided below on both historical and general price-level bases. The amounts for the latter basis were arrived at by translating historical costs by reference to changes in the Gross National Expenditure Implicit Price Index, from the dates of acquisition to March 31, 1979. This basis of valuation reflects only the effect of general inflation on the Company and does not purport to represent appraised value, replacement cost or any other measure of current value.

| | 1979 | | 1978 | |
|---|---|---|---|---|
| ($000's) | Historic cost | General price-level basis | Historic cost | General price-level basis |
| Properties, plant and equipment | $600,932 | $1,131,518 | $546,921 | $1,087,365 |
| Less accumulated depreciation | $105,698 | $ 236,248 | 96,712 | 224,504 |
| Net | $495,234 | $ 895,270 | $450,209 | $ 862,861 |

The application of the historical cost composite depreciation rates to the general price-level values would result in increased depreciation provision as follows: $13.7 million for fiscal 1979 and $13.8 million for fiscal 1978.

The inventory of gas held in underground storage is valued at cost on the first in, first out basis. The latest cost of this supply was the level at which this asset was valued at March 31, 1979 and accordingly no adjustment would be required to reflect current value.

For the remaining utility assets the Company is of the opinion that no material changes in valuation would result from the application of general price-level indices.

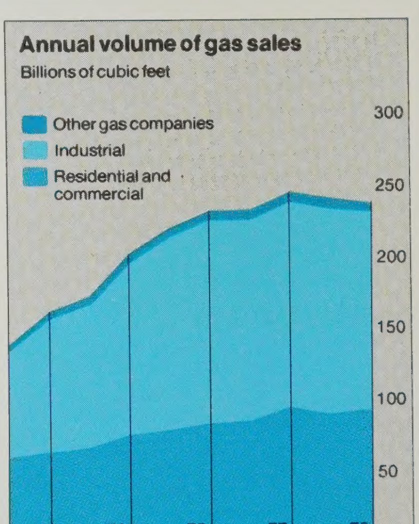
## Rate regulation

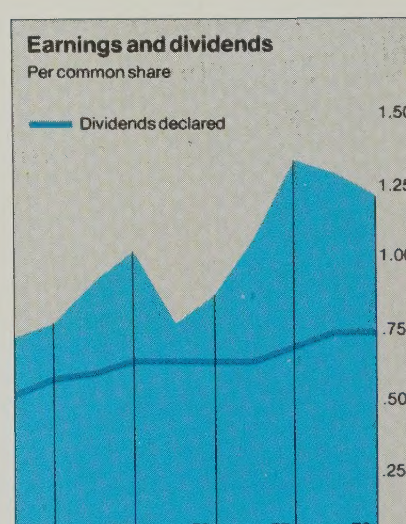
In July 1978 the Ontario Energy Board issued its Decision on Phase I of the Company's August 4, 1977 application for a full review of its rates. The Energy Board found that a fair rate of return, on a rate base determined to be $563 million, was 10.58%. That Decision also established that for the 1978 test year the revenue produced by the rate schedules in effect prior to February 15, 1978 would have been $11.1 million less than the annual revenue required. The Board had allowed the Company to increase its rates effective February 15, 1978 on an interim basis. The effect of this interim increase, on an annual basis and with normal weather conditions, was to allow $10.9 million of the deficiency to be recovered.

In October, 1978 Union applied to the OEB for permission, within the rate hearing then underway, to update its rate base, rate of return, cost of service and revenue deficiency to a more current

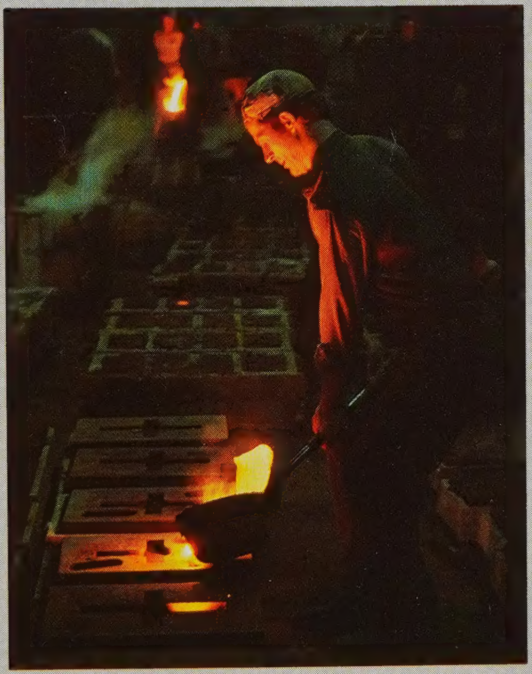
**Gas sales volume and revenue**

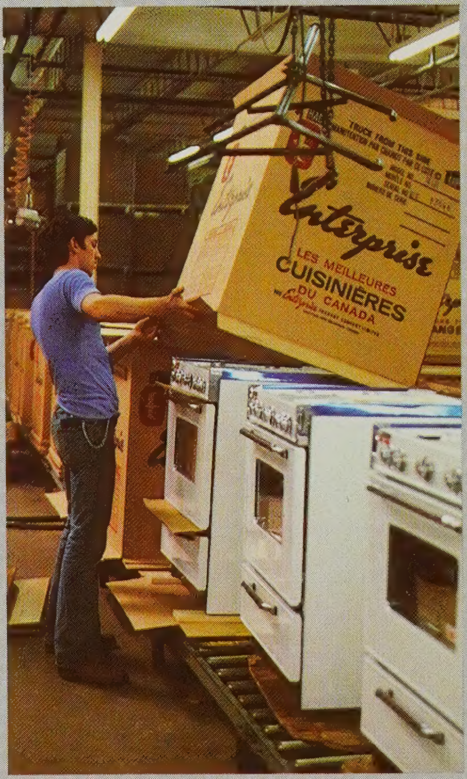
| | Volume in billions of cubic feet | | | Revenue in thousands of dollars | | |
|---|---|---|---|---|---|---|
| Class of customer: | Year to March 31 1979 | % of total | % increase (decrease) from 1978 | Year to March 31 1979 | % of total | % increase (decrease) from 1978 |
| Residential | 50.3 | 21.0 | 2.4 | $164,323 | 27.9 | 18.7 |
| Commercial | 42.5 | 17.7 | 3.8 | 109,388 | 18.6 | 20.0 |
| Industrial | 140.2 | 58.6 | (3.3) | 299,719 | 51.0 | 14.4 |
| Other gas distributors for re-sale | 6.4 | 2.7 | 8.9 | 14,510 | 2.5 | 28.3 |
| Total | 239.4 | 100.0 | (0.6) | $587,940 | 100.0 | 17.0 |



Building a modern gas range, with its many automatic features, is a rather complicated undertaking involving as many as 150 individual steps, from the fabrication of component parts to the final assembly of each unit. Two of these steps are: the insertion of fiber glass insulation in the oven walls of each unit and the casting of surface burner grids and oven door hinges. High standards of workmanship characterize the entire manufacturing process.






Final assembly of the range includes careful fitting of the oven shelves, broiler racks and broiler pans. In addition, the shelves and racks are checked to make sure they won't warp when the oven and broiler are hot. Then, the fuel and electrical systems are tested to ensure the controls and burners are functioning properly. The last step in the manufacturing process is to enclose the completed range in a protective carton, ready for shipment to retailers such as Union Gas.

twelve-month period. When this application was denied by the Energy Board the Company applied for commencement of proceedings under Phase II of the August 4, 1977 main rate application. The Phase II public hearing to determine allocation of the revenue required among the various classes of customers commenced on January 23, 1979 and was completed on February 23, 1979. In its Decision issued March 23, 1979 the OEB gave final approval to rates that will permit recovery of the revenue deficiency found by the Board in its Phase I Decision.

One further increase was authorized by the Energy Board during the fiscal year. By Order dated November 28, 1978 the Company was permitted a rate increase enabling it to pass on to customers the increased gas cost charged by its suppliers from August 1, 1978.

On March 29, 1979 an application was filed with the OEB for a new full hearing into the Company's rate base, allowable rate of return, overall cost of service and rates. No date has yet been set for the hearing of this application.

## System expansion and renewal

Throughout the 1979 fiscal year the Company continued to expand facilities to serve new customers, and to fulfill the requirements of other utilities for additional storage and transportation services. All new business expansion proposals continue to be subject to economic guidelines designed to assure that an adequate rate of return can be expected. Ongoing programs for necessary renewal of existing facilities were also carried out in fiscal 1979. Total capital expenditures related to utility expansion and renewal programs amounted to $61.2 million.

**Distribution facilities:** Distribution mains, service lines, meters and regulators involved capital costs of $15 million to provide service to some 11,000 additional customers. Expenditures for replacement of facilities in the continuing upgrading program to serve existing customers amounted to $15.8 million.

As the number of Union's customers grows, new and improved methods of responding to customer service and bill enquiries become vital. In centres throughout the service area computer-aided response and dispatch systems to answer customer enquiries are linked with data processing equipment at our Head Office. Information on accounts, merchandise, rentals and repair calls is accessible to terminals located at these Region service centres, thus improving communications and operating efficiency in dealing with the growing number of customers.

**Transmission and storage facilities:** In the past year a total of $13.2 million was spent on expansion and renewal of the storage and transmission system. This included $3.8 million to upgrade existing pipelines, pressure regulating stations and storage facilities.

The Dawn compressor station now has total station capacity of over 40,000 horsepower. A variety of complex operations are performed at this station. It receives gas from a number of different sources and controls the flow of gas to and from storage, as well as to Union's markets and to other utilities. During the 1979 fiscal year a contract was awarded to Bristol Co. of Canada Ltd. to supply a new data acquisition and control system. Using on-site mini-computers, the gas dispatchers at Dawn will be able to monitor and analyze more effectively the flow of gas across the Company's transmission and distribution network and control major system functions. The installation of this equipment will provide Union's system with one of the most sophisticated data acquisition and control facilities in the field in Canada.

Expansion of the transmission system during the year included a new 28 kilometre, 10 inch diameter, high pressure line to accommodate the market growth in the Tillsonburg area.

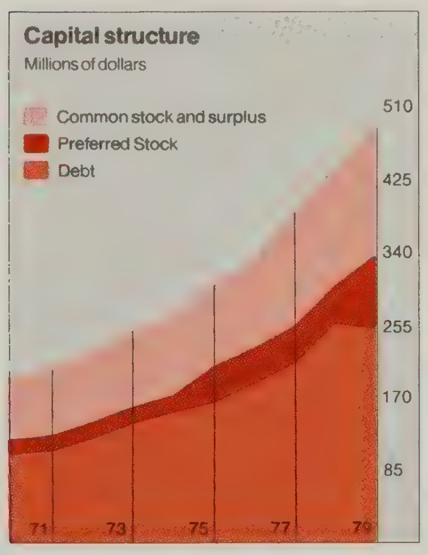
## Gas supply

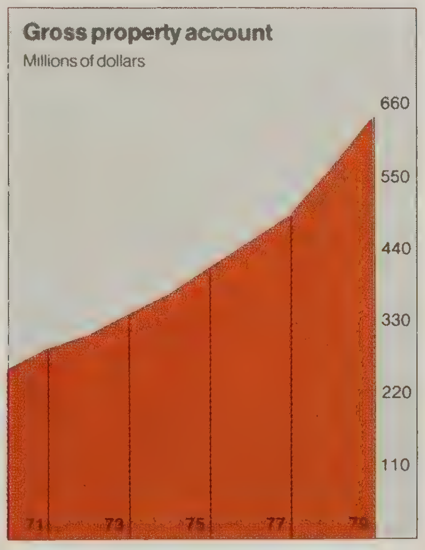
The total volume of gas supplied to the Company in fiscal 1979 was 254.7 BCF, an increase of 0.9 BCF over the prior year. TransCanada PipeLines

**Capital structure**

In thousands of dollars

| | 1979 | % of total | 1978 | % of total |
|---|---|---|---|---|
| Long-term debt | $252,060 | 52.1 | $257,578 | 58.4 |
| Preference shares | 83,508 | 17.2 | 44,149 | 10.0 |
| Common equity | 148,506 | 30.7 | 139,272 | 31.6 |
| | $484,074 | 100.0 | $440,999 | 100.00 |



supplied 242.3 BCF or 95.1% of the total, while local Southwestern Ontario production provided 2.3%.

In the 1979 fiscal year volumes received from Petrosar Limited amounted to 6.7 BCF equivalent, or 2.6% of the total gas supply. Initial deliveries of synthetic natural gas (SNG) had begun in fiscal 1978, under the terms of the 15-year primary term purchase agreement with Petrosar.

During the year Union received approval from the National Energy Board to export SNG under a contract between Union and Northern Natural Gas Company, of Omaha. The Energy Regulatory Administration (ERA) of the United States, however, in a Decision dated March 8, 1979, denied the import request by Northern Natural. The Company and Northern Natural have negotiated a new arrangement which we are hopeful will receive ERA approval.

Note 5 to the Financial Statements provides full information on the purchase and sale arrangements related to the Petrosar SNG supply and your attention is directed to that Note.

## Gas storage

The Company is currently operating 10 underground storage pools, with a working storage capacity of 96.4 BCF. As the chart on this page shows, maximum daily sendout on the system continues to increase significantly. In fiscal 1979 maximum sendout of 2.5 BCF was 7% greater than the system peak day last year. Peak day delivery from storage was 1.7 BCF compared with 1.4 BCF in the previous year.

## Exploration and development

Western Canada exploration and development activities continued to increase during the year with the Company participating in the drilling of 193 wells, 112 of which indicated oil and/or gas in commercial quantities.

On June 1, 1978 Union entered into a three-year Joint Venture Agreement with Canadian Reserve Oil and Gas Ltd. Under this arrangement Union will spend $36 million on exploratory work during the three-year period ending December 31, 1980.

The Company is also participating in a joint venture arrangement with Hudson's Bay Oil and Gas Company Limited, which commenced in June 1977. For several years Union has also been involved in smaller scale joint venture activities with a number of other exploration and development companies. A table of Western Canada drilling activities follows:

| | Oil | Gas | Dry | Total |
|---|---|---|---|---|
| General | 3 | 12 | 2 | 17 |
| Joint Ventures | | | | |
| Hudson's Bay Oil and Gas | 16 | 36 | 39 | 91 |
| Canadian Reserve Oil and Gas | 28 | 17 | 40 | 85 |
| Total | 47 | 65 | 81 | 193 |

Preliminary in-house studies indicate that Union's share of proven and probable marketable reserves amounts to approximately 66 BCF of natural gas, 2,214,000 barrels of oil, and 680,000 barrels of natural gas condensate. Also at March 31, 1979 land holdings amounted to 1,201,056 gross acres and 328,857 net acres for oil and gas exploration and development activities.

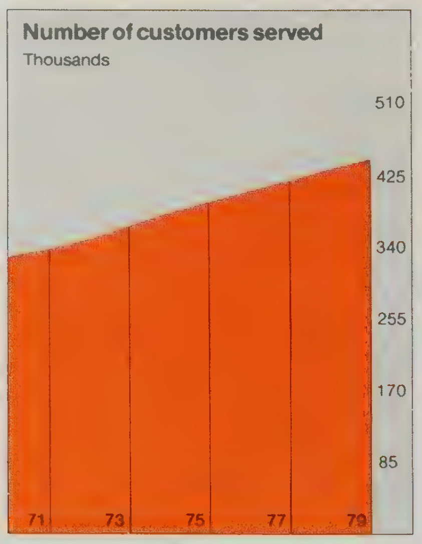
Total Western Canada exploration and development expenditures in fiscal 1979 amounted to $35.3 million. The expenditures related to the two large joint ventures are being deferred in the accounts since the programs are in a very early stage. The Company is confident that its exploration and development activities will contribute significantly to future earnings and cash flow. The exact timing, however, is difficult to predict. Demand for natural gas is growing more slowly in Canada than anticipated and the recent National Energy Board determination of volumes available for export was only a modest 2.5 trillion cubic feet. Applications now being submitted to

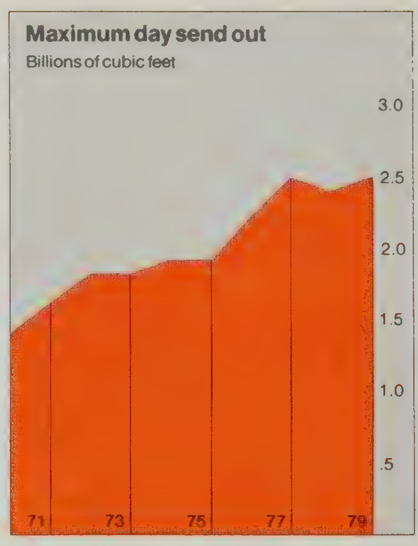
**Gas supply**

Volumes in billions of cubic feet

| Source: | Year to March 31 1979 | % of total | Year to March 31 1978 | % of total |
|---|---|---|---|---|
| TransCanada | 242.3 | 95.1 | 248.4 | 97.9 |
| Ontario producers | 4.8 | 1.9 | 4.0 | 1.5 |
| Petrosar | 6.7 | 2.6 | 0.7 | 0.3 |
| Total | 253.8 | 99.6 | 253.1 | 99.7 |
| Produced from company wells | 0.9 | 0.4 | 0.7 | 0.3 |
| Total gas supply* | 254.7 | 100.0 | 253.8 | 100.00 |

*Excluding gas transmitted and stored for other companies



A prototype of each new gas range is tested for safety, durability and performance by the manufacturer and by the Canadian Gas Association's approvals laboratory. No range (or other gas appliance) can be sold in Ontario unless first tested and approved by CGA. New features or significant changes are also checked out by Union Gas utilization specialists. The manufacturer performs quality control checks on every unit coming off the assembly line, while CGA conducts periodic "audits" to ensure the production models meet the approved standards.

Union Gas recently produced a television commercial featuring Canadian singer Gary Buck promoting gas cooking. This commercial complements other gas range advertising. In addition, gas ranges are attractively displayed in the Company's "Appliance Centres". As part of an extensive consumer information program, specially trained Consumer Service Representatives demonstrate gas cooking techniques to groups and provide helpful advice to individual customers.

that Board for export approvals may lead to some adjustment, although the outcome of the public hearings will not be known for several months.

In Southwestern Ontario the Company continued its participation in natural gas exploration and development through separate joint venture arrangements with three groups.

## Marketing

Throughout fiscal 1979 Union Gas aggressively promoted sales to all classes of customers, stressing dependability of supply and efficiency. Union's marketing policy is closely aligned with the Federal Government's stated objective of increasing emphasis on natural gas and reducing dependence on imported oil.

The Company's heavy penetration of the new residential market continued during the year, with 80% of new single family homes built in the area we serve being heated with natural gas. In addition, there were a large number of conversions to natural gas heating by owners of older residences. Growth in the commercial and industrial regular rate markets was moderate, largely because of economic conditions.

In the large volume industrial category, competition from residual oil remained strong. However, the Company was successful in avoiding further inroads during the year by sellers of this competitive fuel. The loss of sales experienced in this category resulted primarily from plant closings and other operating decisions by customers.

While the overall market is growing at only a modest rate, Union is maintaining its market share in the various categories. We continue to support customers' conservation measures and have recently conducted research into the effects of conservation on the residential market.

The pictorial theme of this Annual Report is the design, manufacture, testing and marketing of gas appliances, with particular emphasis on the gas range — an important appliance in maintaining base load sales in the residential market. In fiscal 1979 the Company continued its program of direct selling of appliances through its retail "Appliance Centre" outlets located throughout the service area. These centres offer a wide range of gas equipment and, as a result of concentrated efforts, the merchandising activity has become an increasingly rewarding one for the Company.

## Employees

The number of regular employees at March 31, 1979 was 2,366. Management and supervisory personnel numbered 458; clerical staff 707; technical specialist staff 281; and hourly paid employees 920.

Agreements with the two unions representing 1,094 employees terminated December 31, 1978. Negotiations continued through to the end of the fiscal year and into the current year without an agreement being concluded. The Company is hopeful that the matter will be resolved shortly.

Staff development programs are conducted by the Company in order to upgrade the qualifications and skills of employees. Supervisory training programs were expanded during fiscal 1979 to fill a broader range of training needs than in the past. Basic training of Customer Service and Distribution Maintenance employees is now centralized in Chatham.

Individual management development programs include university courses and other specialized training.

## Major Holdings & Developments Limited

The assets of this subsidiary were $110 million at March 31, 1979. This is a 167% growth since the majority interest was acquired by Union in April 1976.

Major's total land ownership of nearly 4,000 acres is located in 12 different municipalities in Southwestern Ontario. With headquarters in Waterloo, Ontario, Major is engaged in extensive planning and development of residential subdivisions, as well as the construction and ownership of industrial and commercial buildings for multi-tenant leasing.

The housing market has been somewhat depressed for the last two years in comparison to the average annual levels of the previous five years. Major showed a contribution of 3¢ per share to the earnings of Union for the 1979 fiscal year, a decline of 1¢ per share from the previous year's contribution.

# Significant accounting policies

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of numerous estimates and approximations. Such estimates and approximations have been made using careful judgment and in the light of information available up to May 4, 1979. These financial statements are, in management's opinion, correct within reasonable limits of materiality and within the framework of the accounting summarized below:

**Basis for consolidation** The accompanying financial statements consolidate the accounts of Union Gas Limited and its subsidiary, Union Gas Investments, a wholly-owned holding company. Owing to the differing nature of utility and real estate operations the Company's investment in Major Holdings & Developments Limited (Major), an 85.7% owned real estate company, is accounted for on the equity basis. (Note 3.)

**Regulation** The Company is subject to regulation under The Ontario Energy Board Act and The Energy Act, 1971 (Ontario). The accounting practices followed by the Company are approved as appropriate by the Ontario Energy Board in connection with determining revenue rates. Such rates are designed to recover the utility cost of service including a fair and reasonable return on the utility investment. However, such recovery is dependent upon the outcome of many factors.

**Gas sales and cost of gas** The Company follows an industry practice of recording gas sales monthly as billed on the basis of meter readings made throughout the month and does not include in the current month's revenue customer consumption of gas from the meter reading dates to the month end. Consequently, at each year end there is a volume of gas included in cost of gas for which related revenue will be recorded in the subsequent period when the meters are read and customers billed. The volume of unbilled gas will differ at each year end, largely as a result of temperature variations.

Also affecting the matching of gas sales and the cost of gas sold are volumetric differences arising from measurement variations, which are within tolerable contractual levels for purchases and sales, and minor unidentifiable gas losses. The Company includes the cost of measurement variations and losses in Cost of Gas in the Statement of Income at the volume level recognized by the Ontario Energy Board in the determination of customer sales rates. Although annual variations from this level are experienced the results are expected to average out to the recognized level over a period of time. The dollar value of the annual variation is carried in a gas measurement normalization account under Other Deferred Charges on the Balance Sheet.

**Properties and depreciation** Properties are carried at cost which includes all direct costs, an allocation of overhead incurred during construction, and interest costs applicable to the cost of new properties during the construction period. During the year ended March 31, 1979 interest was capitalized at a rate of 11¼% (1978 — 10¾%).

Depreciation is provided on the straight-line basis at various rates based on periodic review by consultants of the remaining useful service life of each class of property and approved as appropriate by the Ontario Energy Board. The rates provided during the year ended March 31, 1979 resulted in a composite rate of 3.10% (1978 — 3.07%).

**Oil and gas exploration and development — Western Canada** In addition to Ontario exploration and development which is classified as part of the utility operation, the Company is involved in a comprehensive oil and gas exploration and development program in Western Canada. These expenditures are not part of the Company's utility operation. The Company follows the full cost method of accounting for these oil and gas operations whereby all costs related to exploration and development of oil and gas reserves in this geographic area are capitalized. Annual depletion is provided on a unit-of-production basis. Until the quantities of proved reserves in the major joint ventures can be ascertained through substantial completion of the initial exploration program, or until significant revenues are realized, costs (including interest) of approximately $38,200,000 at March 31, 1979 (1978 — $6,100,000) are excluded from the depletion calculation.

**Income taxes** The Company accounts for income taxes by the tax allocation method, whereby income tax expense is the amount that would be payable if statutory tax deductions for oil and gas exploration costs, depreciation and other expenses did not exceed those recorded in the accounts. This method recognizes the deferment of income taxes to future years when amounts deductible for income taxes will be less than the depreciation and amortization recorded in the accounts.

**Inventories** Inventory of gas held in underground storage available for current sale is valued at cost on the first-in, first-out basis.

Inventories of merchandise, stores and spare equipment are valued at the lower of cost on the average cost basis and replacement cost.

**Realty operations** The realty operations are carried on through Major, which is not part of the utility operation.

A significant portion of realty assets represents property held for development and sale which is carried at the lower of cost, including applicable interest and property taxes, and net realizable value; related debt is renewed as required or is repaid as properties are sold. Investment properties are carried at cost less accumulated depreciation which is provided primarily using the sinking fund method based on 5% interest rate over 50 years. Realty income is recognized as follows:

(i) income from land sales is recognized when all material conditions have been satisfied and collection of the unpaid balance is reasonably assured;

(ii) income from housing sales is recognized when the purchaser takes legal ownership of the property;

(iii) income from condominium sales is recognized, after sufficient units have been sold, when the purchaser pays the amount due on closing, is entitled to occupancy and undertakes to assume a mortgage for the balance of the sale price.

**Deferred charges** Deferred gas costs of $5,391,000, paid to TransCanada PipeLines Limited, to finance expansion of pipeline facilities are being amortized over a ten-year period ending March 31, 1986 as they will be included in the Company's cost of service for rate making purposes over that period.

Unamortized debt discount and expense is amortized over the terms of the related issues of long-term debt.

**Employee pension plan** Based on a valuation by consulting actuaries, the unfunded obligation which has resulted from revisions and revaluations of the Company's pension plan is $6,890,000 at March 31, 1979. The past service obligation and changes resulting from revisions to the plan are charged to operations over a fifteen-year period from the date of the revision. Changes in the obligation due to revaluations of the plan are charged to operations over a three-year period. Based on actuarial advice, amounts charged against operations in respect of the unfunded liability were $1,611,000 in 1978 and $1,493,000 in 1979 and the following amounts will be charged against operations for the fiscal years: 1980 — $1,292,000; 1981 — $887,000; 1982 — 706,000 and gradually reducing amounts in subsequent years to 1991.

**Earnings per common share** Basic earnings per share are calculated on the basis of the weighted average number of common shares outstanding during the year, which was 17,948,962 shares. Fully diluted earnings per share assume the conversion, where applicable, of the Class B preference shares and the exercise of all outstanding stock options as at the beginning of each fiscal year.

## Consolidated Statement of Income ($000's)

Union Gas Limited

| | Year ended March 31 | |
|---|---|---|
| | **1979** | 1978 |
| **Revenue** | | (restated) |
| Gas sales | **$587,940** | $502,695 |
| Transportation and storage of gas | **20,920** | 24,613 |
| Other income | **14,181** | 12,030 |
| | **623,041** | 539,338 |
| **Operating expenses and interest** | | |
| Cost of gas | **462,985** | 391,209 |
| Operating and maintenance costs | **59,454** | 54,613 |
| Property and capital taxes | **7,774** | 7,123 |
| Depreciation and amortization (note 1) | **15,161** | 13,549 |
| Interest and expense on long-term debt (note 2) | **24,420** | 20,698 |
| Other interest and financial expense | **3,112** | 3,237 |
| | **572,906** | 490,429 |
| Income before income taxes, subsidiary earnings and extraordinary item | **50,135** | 48,909 |
| Income taxes | | |
| Current | **1,638** | 12,063 |
| Deferred | **22,270** | 11,001 |
| | **23,908** | 23,064 |
| Income before subsidiary earnings and extraordinary item | **26,227** | 25,845 |
| Share of earnings of Major Holdings & Developments Limited (note 4) | **532** | 715 |
| Income before extraordinary item | **26,759** | 26,560 |
| Write-off of expenditures in Canadian Arctic Gas Study Limited | | 3,940 |
| **Net income for the year** (note 3) | **26,759** | 22,620 |
| Dividend requirements on preference shares (note 8 (g)) | **4,835** | 3,283 |
| **Earnings applicable to common shares** | **$ 21,924** | $ 19,337 |
| **Basic earnings per common share** | | |
| Before extraordinary item | **$ 1.22** | $ 1.30 |
| After extraordinary item | **$ 1.22** | $ 1.08 |
| **Fully diluted earnings per common share** | | |
| Before extraordinary item | **$ 1.16** | $ 1.22 |
| After extraordinary item | **$ 1.16** | $ 1.03 |

## Consolidated Statement of Accumulated Retained Earnings ($000's)

Union Gas Limited

| | Year ended March 31 | |
|---|---|---|
| | **1979** | 1978 |
| | | (restated) |
| Balance at beginning of year, as restated (note 3) | **$82,804** | $76,615 |
| Net income for the year | **26,759** | 22,620 |
| | **109,563** | 99,235 |
| Deduct: | | |
| Dividends declared (note 8 (g)) | **17,886** | 16,333 |
| Transfer of retained earnings, capitalized on common stock (note 8 (d)) | **22,500** | |
| Amortization of expenses on issue of Class B preference shares | **128** | 98 |
| | **40,514** | 16,431 |
| Balance at end of year | **$69,049** | $82,804 |

(See accompanying notes)

## Consolidated Balance Sheet ($000's)
Union Gas Limited

| ASSETS | Year ended March 31 1979 | 1978 (restated) |
|---|---|---|
| Properties, plant and equipment — at cost (note 1) | **$600,932** | $546,921 |
| Less accumulated depreciation | **105,698** | 96,712 |
| | **495,234** | 450,209 |
| **Current assets** | | |
| Accounts receivable (note 6) | **80,914** | 77,543 |
| Inventories — | | |
| Gas in underground storage (note 7) | **78,171** | 44,784 |
| Merchandise, stores and spare equipment | **10,725** | 10,321 |
| | **169,810** | 132,648 |
| **Deferred charges:** | | |
| Deferred gas costs | **4,228** | 4,649 |
| Unamortized debt discount and expense | **3,320** | 3,652 |
| Other deferred charges | **2,144** | 5,172 |
| | **9,692** | 13,473 |
| **Other assets:** | | |
| Investment in and advances to Major Holdings & Developments Limited (note 4) | **14,393** | 10,056 |
| Western Canada exploration and development costs (note 12) | **46,003** | 10,865 |
| | **60,396** | 20,921 |
| | **$735,132** | $617,251 |

| LIABILITIES | 1979 | 1978 |
|---|---|---|
| **Shareholders' equity** | | |
| Capital stock (note 8) — | | |
| Preference shares | **$ 83,508** | $ 44,149 |
| Common shares | **79,457** | 56,468 |
| | **162,965** | 100,617 |
| Accumulated earnings retained for use in the business | **69,049** | 82,804 |
| | **232,014** | 183,421 |
| **Long-term debt** (note 9) | **252,060** | 257,578 |
| **Deferred income taxes** | **100,305** | 78,035 |
| **Current liabilities** | | |
| Commercial notes and bank loans | **75,678** | 32,698 |
| Accounts payable and accrued charges | **61,127** | 53,054 |
| Dividends payable | **3,649** | 3,907 |
| Income and other taxes payable | **4,174** | 2,549 |
| Accrued interest on long-term debt | **4,520** | 4,482 |
| Long-term debt due within twelve months (note 9) | **1,605** | 1,527 |
| | **150,753** | 98,217 |
| | **$735,132** | $617,251 |

(See accompanying notes)

On behalf of the Board: C.M. Harding, Director W.G. Stewart, Director

## Consolidated Statement of Changes in Financial Position ($000's)

Union Gas Limited

| | Year ended March 31 | |
|---|---|---|
| | **1979** | 1978 |
| **Funds provided** | | (restated) |
| Operations (note 10) | **$ 69,025** | $ 50,302 |
| Long-term debt issued | | 48,930 |
| Preference shares issued | **39,696** | 1,980 |
| | **$108,721** | $101,212 |
| **Funds applied** | | |
| Net expenditures on utility properties | **$ 61,173** | $ 59,718 |
| Western Canada exploration and development expenditures | **35,277** | 8,125 |
| Retirement of long-term debt | **5,518** | 4,642 |
| Dividends declared (note 8 (g)) | **17,388** | 16,333 |
| Purchase of preference shares for cancellation | **638** | 212 |
| Advance to Major Holdings & Developments Limited | **4,000** | |
| Canadian Arctic Gas Study Limited expenditures | | 1,288 |
| Deferred charges and other items | **101** | 131 |
| Increase (decrease) in working capital | **(15,374)** | 10,763 |
| | **$108,721** | $101,212 |

(See accompanying notes)

## Notes to consolidated financial statements

**Accounting policies** The significant accounting policies appearing on page 14 are an integral part of these financial statements.

**1. Properties and depreciation**

Properties, plant and equipment relate to utility operations and include distribution systems, transmission lines, gas wells and gathering lines, gas storage facilities, base pressure gas, land and buildings, and Ontario oil and gas exploration and development costs, a summary analysis of the cost of which is as follows:

| | March 31 | |
|---|---|---|
| ($000's) | **1979** | 1978 |
| Production | **$ 4,624** | $ 4,623 |
| Storage | **57,937** | 54,938 |
| Transmission | **155,468** | 146,359 |
| Distribution | **315,246** | 283,944 |
| General | **67,657** | 57,057 |
| Total | **$600,932** | $546,921 |

Depreciation and amortization shown on the income statement includes those amounts charged directly as an operating expense in the Company's accounts. In addition, $890,000 (1978 — $757,000) was allocated to other accounts, primarily expense accounts.

**2. Interest expense**

The amounts shown for interest, including long-term debt discount and expense amortized, are the amounts charged directly as an operating expense in the Company's accounts. In addition, interest was charged to other accounts as follows:

| | Year ended March 31 | |
|---|---|---|
| ($000's) | **1979** | 1978 |
| Properties, plant and equipment | **$ 833** | $1,250 |
| Western Canada exploration and development costs | **818** | |
| Petrosar gas inventory | **1,214** | 29 |
| Total | **$2,865** | $1,279 |

**3. Changes in accounting policies**

Basis for consolidation —

Recent changes in generally accepted accounting principles recommended by the Canadian Institute of Chartered Accountants permit equity accounting of subsidiaries in certain circumstances.

In prior years the company consolidated its investment in Major but is now of the opinion that, owing to the differing nature of utility and real estate operations, the equity method of accounting, supplemented by condensed financial statements, provides a more informative presentation. The adoption, on a retroactive basis, of this method has no effect on net income or retained earnings.

Gas sales and cost of gas —

During the fiscal year ended March 31, 1979 the Company changed its policy for determination of Cost of Gas included in the Statement of Income. As stated in "Gas Sales and Cost of Gas" under Significant Accounting Policies the cost of gas volumes attributable to measurement variations and minor unidentifiable gas losses is now included in Cost of Gas at the volumetric level recognized from time to time by the Ontario Energy Board in determination of customer sales rates. In prior years such cost was based on the volumetric amount actually experienced. The effect of this change for fiscal 1978 was to increase net income by $1,213,000 and earnings per common share before extraordinary item by $.07. This adjustment has been reflected on a retroactive basis by restating the balance of retained earnings at March 31, 1978. There is no material effect on net income of years prior to 1978. Had this change not been made net income for fiscal 1979 would have been greater by $1,210,000 ($.07 per common share).

## 4. Investment in Major Holdings & Developments Limited

| Summarized statement of income | Year ended March 31 1979 | 1978 |
|---|---|---|
| | ($000's) | |
| Realty revenue: | | |
| Land and housing sales | **$22,027** | $16,402 |
| Rental income | **2,830** | 2,351 |
| Other | **798** | 975 |
| | **25,655** | 19,728 |
| Cost of realty operations: | | |
| Cost of land and housing sold | **19,011** | 12,879 |
| Cost of rental operations | **3,068** | 2,507 |
| Intercompany interest | **545** | |
| Other costs | **2,470** | 2,007 |
| | **25,094** | 17,393 |
| Income before income taxes and minority interest | **561** | 2,335 |
| Income taxes (recovery—note 2) | **(122)** | 1,381 |
| Minority interest | **151** | 239 |
| | **29** | 1,620 |
| Net income attributable to Union's investment in shares | **$ 532** | $ 715 |

Notes:

1. Cost of land and housing sold include $240,000 in 1979 ($594,000 in 1978) representing an allocation of the excess of the cost of realty assets over the cost to Major.

2. Based upon discussions and agreements with the taxation authorities, Major has revised its accounting estimate of taxes on net gains and losses on investment property sales and sale / leaseback transactions of prior years. This revision has resulted in a $511,000 reduction in the 1979 provision for deferred income taxes.

| Summarized balance sheet | March 31 1979 | 1978 |
|---|---|---|
| Realty assets: | ($000's) | |
| Properties held for development and sale | **$63,367** | $42,366 |
| Investment properties less accumulated depreciation of $582,000 at March 31, 1979 and $447,000 at March 31, 1978 | **25,088** | 19,995 |
| Sale agreements and mortgages and other assets receivable | **21,627** | 13,919 |
| | **110,082** | 76,280 |
| Less realty debt: | | |
| Mortgages payable | **59,259** | 41,795 |
| Bank indebtedness | **19,849** | 10,409 |
| Other liabilities | **9,645** | 7,401 |
| | **88,753** | 59,605 |
| Sub-total | **21,329** | 16,675 |
| Less: Deferred income taxes | **5,381** | 5,149 |
| Minority interest | **1,555** | 1,470 |
| | **6,936** | 6,619 |
| Book value of Union's interest in net realty assets | **$14,393** | $10,056 |
| Consisting of: | | |
| Interest bearing advances | **$ 4,234** | $ 248 |
| Investment in shares | **10,159** | 9,808 |
| | **$14,393** | $10,056 |

Note: Properties held for development and sale include $2,649,000 in 1979 ($2,888,000 in 1978) representing the excess of the effective cost of the realty assets to Union, (at the date of its acquisition of Major), over the cost to Major.

| Summarized statement of changes in financial position | Year ended March 31 1979 | 1978 |
|---|---|---|
| Financial resources provided by: | ($000's) | |
| Operations | **$ 1,063** | $ 2,388 |
| Land development and housing costs realized through sales | **17,034** | 11,969 |
| Mortgage on land, housing and income properties | **29,972** | 18,774 |
| Advance from Union Gas Limited | **4,000** | |
| | **52,069** | 33,131 |
| Financial resources used for: | | |
| Land acquisitions, development and carrying costs | **34,088** | 7,457 |
| Housing construction costs | **5,204** | 9,508 |
| Income properties constructed | **5,302** | 3,759 |
| Repayment of mortgages payable | **12,522** | 6,614 |
| Dividends | **238** | 238 |
| Other | **4,155** | 4,132 |
| | **61,509** | 31,708 |
| Increase (decrease) in bank indebtedness | **$ 9,440** | $(1,423) |

The Company has an option agreement to acquire an additional 300,000 common shares (14%) of Major in the future at a cost determined by formula to be satisfied by issue of Class A common shares.

Mortgages payable bear interest at an average rate of 10.9% with approximate principal payments due in the years ending March 31:

| | ($000's) |
|---|---|
| 1980 | $ 3,354 |
| 1981 | 2,629 |
| 1982 | 9,257 |
| 1983 | 2,618 |
| 1984 | 19,851 |
| Subsequent | 15,177 |
| Advances on housing inventory to be assumed by purchasers | 6,373 |
| | $59,259 |

Mortgages payable are secured by property held for development and sale, investment properties and a mortgage receivable. Bank indebtedness is secured by an assignment of mortgages, notes and other amounts receivable, fixed charges on certain properties and a floating charge on all the assets of Major.

Interest on realty debt for the year ended March 31, 1979 amounted to $6,595,000 of which $3,610,000 was capitalized and $2,985,000 was charged as expense and included as cost of realty operations. Depreciation on realty assets amounted to $582,000 and is included as cost of realty operations.

## 5. Gas Supply Agreement with Petrosar Limited

At March 31, 1979 the Company had accumulated 7.4 billion cubic feet (Bcf) in an inventory account "Gas in Underground Storage", consisting of gas received from Petrosar Limited, at a cost of $26,175,000 including accumulated interest. This amount exceeds the current replacement cost, based on rates currently charged by the Company's main supplier, TransCanada PipeLines Limited, by approximately $12,000,000. The basis of accounting for this gas is in accordance with Accounting Orders received from the Ontario Energy Board pending the outcome of actions by the Company to export this supply.

The receipt of this gas is pursuant to a Gas Supply Agreement with Petrosar Limited, dated November 20, 1974, under which the Company agreed to purchase approximately 8 Bcf of synthetic gas annually for fifteen years, commencing May 1, 1978. The current price of this supply is approximately $3.90 per thousand cubic feet (Mcf) and is subject to periodic adjustment related to Petrosar's crude oil feedstock cost. The price is currently in excess of the cost of alternative gas by about $1.95 per Mcf. At a level of 8 Bcf the current annual premium for this supply resulting from this cost differential amounts to $15,600,000.

Under a Gas Service Agreement with Northern Natural Gas Company of Omaha dated December 21, 1977 as amended, the Company agreed to sell the Petrosar supply at a price based on the Canadian international export price, as established from time to time by the Federal Government, currently $2.30 per Mcf (US funds) plus a storage service charge. This basis results in a current price of about $3.30 per Mcf, Canadian, which would give rise to an annual deficiency from cost of approximately $4,800,000. The agreement provides for deliveries up to 10 Bcf annually until April 1, 1983 and is subject to regulatory approvals in Canada and the United States.

Approval was received in November, 1978 from the National Energy Board to export this gas at an earlier negotiated higher price to Northern. However, because of rejection, primarily due to price, in March, 1979 by a United States federal energy authority of Northern's import application the agreement was revised to provide for the lower rate stated above. The revised agreement has been submitted to the United States authorities for reconsideration. This agreement expires November 1, 1979 if all necessary approvals have not then been received. The Company expects that these will be received by such date. Should approval for the sale be granted as applied for it is possible that all Petrosar volumes received to April 1, 1983 could be sold to Northern, but a shortfall in recovery of costs is likely in an amount not presently determinable.

Until all regulatory decisions relating to the proposed export are received the unsold volumes and shortfall in the recovery of costs are not determinable. When these decisions are received the company intends to apply to the Federal Government for changes in legislation to

allow for appropriate cost compensation on a basis similar to that provided for synthetic oil development, and also apply to the Ontario Energy Board for permission to include any remaining costs in its cost of service for rate making purposes.

Pending receipt of decisions on these matters, no provision has been made for loss, if any, on the Petrosar agreement.

**6. Accounts receivable**

As part of its normal operations, the Company offers deferred payment finance plans for appliance sales and installation costs. Accounts receivable include merchandise finance plan accounts of which $3,731,000 at March 31, 1979 and $3,227,000 at March 31, 1978 are not due within twelve months.

**7. Inventories**

Gas in underground storage available for sale at March 31, 1979 and 1978 consists of:

| | March 31 | |
|---|---|---|
| | **1979** | 1978 |
| Volume — billion cubic feet | | |
| TransCanada PipeLine supply | **26.3** | 23.2 |
| Petrosar supply | **7.4** | .7 |
| Total | **33.7** | 23.9 |
| Cost — ($000's) | | |
| TransCanada PipeLine supply | **$51,996** | $42,401 |
| Petrosar supply | **26,175** | 2,383 |
| Total | **$78,171** | $44,784 |
| Average cost per thousand cubic feet | | |
| TransCanada PipeLine supply | **$1.97** | $1.83 |
| Petrosar supply | **3.55** | 3.40 |
| Total | **$2.32** | $1.87 |

**8. Capital stock and dividends**

(a) Details of capital stock are as follows:

| | March 31 | |
|---|---|---|
| | **1979** | 1978 |
| Preference shares | ($000's) | |
| Authorized: | | |
| Class A – 331,937 shares with a par value of $50 each | | |
| Class B – 4,996,590 shares with a par value of $20 each | | |
| Issued: | | |
| Class A (see (b) below) – | | |
| 133,737 Series A, 5½% | **$ 6,687** | $ 6,755 |
| 90,000 Series B, 6% | **4,500** | 4,500 |
| 108,200 Series C, 5% | **5,410** | 5,980 |
| Class B (see (c) below – | | |
| 1,246,590 Series 1, 8¾% | **24,931** | 24,934 |
| 99,000 Series 2, variable | **1,980** | 1,980 |
| 2,000,000 Series 3, 7% | **40,000** | |
| | **$ 83,508** | $ 44,149 |
| Common shares without par value: | | |
| Authorized: 22,007,502 shares | | |
| Issued: | | |
| Class A 16,458,330 shares | | |
| Class B 1,512,695 shares | | |
| 17,971,025 | **79,177** | 56,468 |
| To be issued May 1, 1979 as a stock dividend – 27,650 Class B shares | **280** | |
| | **$162,965** | $100,617 |

(b) The Class A preference shares are cumulative and are redeemable as follows:
Series A — at $50.50 per share at any time,
Series B — at $55.00 per share at any time,
Series C — at $51.00 per share until March 31, 1981 and $50.50 per share thereafter.

Under the conditions attaching to the Series A and Series C preference shares, the Company is committed to purchase shares on the open market for cancellation if their market prices fall to par or below as follows:
Series A — in amounts up to $170,000 annually,
Series C — in amounts up to $140,000 annually.

As required by the Articles of the Company, a special allocation of retained earnings is shown on the books of the Company to reflect this commitment. During the fiscal year ended March 31, 1979, 1,359 Series A shares with an aggregate par value of $68,000 were purchased and cancelled and 11,400 Series C shares with an aggregate par value of $570,000 were purchased and cancelled.

(c) The Class B preference shares, Series 1, are cumulative, redeemable and convertible shares. These shares are not redeemable prior to March 31, 1980. On and after that date, the shares will be redeemable at the option of the Company at a redemption price of $21.40 per share if redeemed on or before March 31, 1981 and reducing annually in gradual amounts of $20 per share if redeemed after March 31, 1985. In addition, these preference shares are convertible into common shares of the Company on or prior to March 31, 1985 at a rate which is currently 2.2 common shares for each preference share.

The Class B preference shares, Series 2, are cumulative, redeemable and convertible shares. The dividend rate fluctuates to equate with the prime bank rate. These shares are redeemable at any time, at the option of the Company, at a redemption price of $20 per share and must be redeemed before August 3, 1987. These shares are also redeemable at the option of the holder up to May 3, 1987 at a redemption price of $20 per share and are convertible into common shares up to May 3, 1987, at a rate of 2.2 common shares for each preference share.

On September 15, 1978 the Company issued for cash 2,000,000 7% cumulative redeemable Class B preference shares, Series 3 with a par value of $20 each. Through the operation of a mandatory sinking fund, 60,000 of these shares will be redeemed on September 1, 1979 and on September 1 in each year thereafter at a redemption price of $20 per share. Other than for sinking fund purposes, these shares are not redeemable prior to September 1, 1983. On and after September 1, 1983 the shares will be redeemable at the option of the Company at a redemption price of $21 per share if redeemed prior to September 1, 1984 and thereafter at prices gradually reducing to $20 per share.

(d) The Class A and B common shares are voting shares, interconvertible on a share for share basis and rank equally in all respects. During the year ended March 31, 1979, a net total of 510,604 shares was converted from Class B to Class A common shares.

The only distinction between the two classes of shares is as follows: the Directors may elect to pay stock dividends on Class B common shares. On November 30, 1978 the Company applied for and received supplementary letters patent to provide for the payment of stock dividends. Until December 31, 1978 the Directors elected to pay dividends on Class B common shares out of tax-paid undistributed surplus on hand or 1971 capital surplus on hand as defined in the Income Tax Act, in which case the sum of the cash dividend on a Class B common share plus any 15% tax paid per share to create tax-paid undistributed surplus was equal to the cash dividend paid on a Class A common share.

During the year the Company transferred $22,500,000 from retained earnings to capital stock — common shares, out of 1971 capital surplus on hand.

(e) Changes in the number of common shares issued during the 1979 fiscal year are as follows:

100 Class B preference shares were converted into Class A common shares, reducing the number of authorized and issued Class B preference shares by 100 and increasing the number of authorized and issued common shares by 220.

8,570 Class A common shares were issued under stock option plans for senior employees for no cash consideration.

20,978 Class B common shares were issued as stock dividends.

(f) Under a market growth stock option plan, senior employees are granted options, expiring after a period of six years from the date of granting, to acquire common shares of the company for no cash consideration. The number of shares which may be received under the option increases with the growth in the market value of the common shares to a maximum of 50% of the options being exercised.

At the year end options were outstanding which if exercised, would result in the issue of 83,600 common shares, based on the market value of the common shares at the year end, and a maximum of 180,740 common shares over the next six years.

(g) Dividends declared on capital stock are as follows:

| | Year ended March 31 | |
|---|---|---|
| | **1979** | 1978 |
| Preference shares (rate per annum) | ($000's) | |
| Class A: | | |
| Series A – $2.75 per share | **$ 369** | $ 377 |
| Series B – $3.00 per share | **270** | 270 |
| Series C – $2.50 per share | **282** | 299 |
| Class B: | | |
| Series 1 – $1.75 per share | **2,181** | 2,187 |
| Series 2 – $2.396 per share (current indicated rate) | **208** | 150 |
| Series 3 – $1.40 per share | **1,291** | |
| Total preference dividends | **4,601** | 3,283 |
| Common shares (current indicated rate per annum) | | |
| Class A – 74¢ per share | **12,062** | 11,711 |
| Class B – 74¢ per share (of which $498,000 was stock dividends) | **1,223** | 1,339 |
| Total common dividends | **13,285** | 13,050 |
| Total dividends | **$17,886** | $16,333 |

The trust indentures providing for the issue of the Company's debentures contain certain restrictions regarding the amount that may be paid as dividends. All of the accumulated earnings retained for use in the business at March 31, 1979 were free from limitation under the most stringent of these restrictions.

(h) On April 3, 1979 the company declared a quarterly dividend on the Class B, Series 3 preference shares of 35¢ per share.

### 9. Long-term debt

Details of the sinking fund debentures as at March 31, 1979 and 1978 are as follows:

| ($000's) | Total outstanding | Current liability | Long-term portion 1979 | 1978 |
|---|---|---|---|---|
| 6¼% 1961 Series, due July 15, 1981 | $ 5,813 | $ 413 | $ 5,400 | $ 6,025 |
| 6¼% 1963 Series, due August 15, 1983 | 7,537 | 237 | 7,300 | 7,900 |
| 6⅜% 1965 Series, due September 1, 1985 | 9,817 | 542 | 9,275 | 9,850 |
| 7½% 1967 Series, due January 5, 1987 | 9,944 | 69 | 9,875 | 10,450 |
| 7¾% 1968 Series, due August 1, 1988 | 14,844 | | 14,844 | 15,600 |
| 9⅛% 1970 Series, due April 1, 1990 | 200 | | 200 | 200 |
| 8% 1971 Series, due November 15, 1991 | 17,823 | | 17,823 | 18,600 |
| 8⅜% 1972 Series, due November 15, 1992 | 13,938 | | 13,938 | 14,475 |
| 8% 1972 U.S. Series, due November 15, 1992 (U.S. $9,650) | 9,478 | 344 | 9,134 | 9,478 |
| 8¼% 1973 Series, due June 1, 1993 | 19,271 | | 19,271 | 20,000 |
| 11% 1974 Series, due August 15, 1994 | 25,000 | | 25,000 | 25,000 |
| 11⅜% 1975 Series, due September 15, 1995 | 30,000 | | 30,000 | 30,000 |
| 10⅝% 1976 Series, due July 15, 1996 | 40,000 | | 40,000 | 40,000 |
| 10% 1978 Series, due February 15, 1998 | 50,000 | | 50,000 | 50,000 |
| Total amounts per balance sheet | $253,665 | $1,605 | $252,060 | $257,578 |

The U.S. Series is recorded at the exchange rate in effect at the date of issue; based on the exchange rate at March 31, 1979, $11,200,000 Canadian would be required to discharge this series.

Sinking fund requirements during the next five years ending March 31, are as follows: 1980 — $1,605,000; 1981 — $6,304,000; 1982 — $11,828,000; 1983 — $8,668,000; 1984 — $15,217,000.

### 10. Funds provided from operations

| ($000's) | Year ended March 31 **1979** | 1978 |
|---|---|---|
| Income before extraordinary item | **$26,759** | (restated) $26,560 |
| Add (deduct) amounts which did not involve an outlay of funds: | | |
| Depreciation | **16,051** | 14,306 |
| Deferred income taxes | **22,270** | 11,001 |
| Miscellaneous (net) | **3,945** | (1,565) |
| | **$69,025** | $50,302 |

### 11. Directors' and senior officers' remuneration

Direct remuneration of directors and senior officers totalled $938,000 during the year ended March 31, 1979.

### 12. Capital expenditures and commitments

Capital expenditures for utility plant of approximately $58,000,000 are planned for the fiscal year ending March 31, 1980.

Under exploration and development joint venture agreements with Hudson's Bay Oil and Gas Company Limited and Canadian Reserve Oil and Gas Ltd., the Company is also committed to minimum exploration expenditures of $57,000,000 over a period ending December 31, 1980 of which $32,000,000 has been expended to March 31, 1979.

### 13. Comparative figures

Utility plant has been reclassified to provide for separate disclosure of Western Canada exploration and development costs.

### 14. Anti-Inflation Program

The Company was subject to the Anti-Inflation Act which, effective October 14, 1975, established guidelines for the restraint of prices and profit margins, employee compensation and dividends until December 31, 1978. Management is of the opinion that the Company and its subsidiary, Major, are in compliance with the Act and related regulations.

## Auditors' report

**To the shareholders of Union Gas Limited**

We have examined the consolidated balance sheet of Union Gas Limited as at March 31, 1979 and the consolidated statements of income, accumulated earnings retained for use in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, subject to the receipt of regulatory and governmental approvals for the recovery of excess gas costs incurred under the Petrosar Limited gas supply agreement (note 5), these financial statements present fairly the financial position of the company as at March 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, after giving retroactive effect to the changes in accounting policies described in note 3, have been applied on a basis consistent with that of the preceding year.

Chartered Accountants
Toronto, Canada, May 4, 1979.

## Financial Statistics
Union Gas Limited

| | Fiscal years ended March 31 | | | | | |
|---|---|---|---|---|---|---|
| | **1979** | 1978 | 1977 | 1976 | 1975 | 1974 |
| **Revenues, expenses and net earnings** ($000's) | | | | | | |
| Revenues: | | | | | | |
| Gas sales | **$587,940** | $502,695 | $441,994 | $304,018 | $222,471 | $174,592 |
| Transportation and storage | **20,920** | 24,613 | 17,159 | 13,281 | 10,544 | 8,139 |
| Other | **14,181** | 12,030 | 10,614 | 9,746 | 7,198 | 6,609 |
| Total revenues | **623,041** | 539,338 | 469,767 | 327,045 | 240,213 | 189,340 |
| Expenses: | | | | | | |
| Cost of gas | **462,985** | 391,209 | 331,644 | 213,023 | 145,981 | 109,832 |
| Operating and maintenance costs | **59,454** | 54,613 | 50,326 | 43,918 | 36,991 | 30,866 |
| Depreciation and amortization | **15,161** | 13,549 | 12,216 | 8,953 | 8,127 | 7,310 |
| Interest | **27,532** | 23,935 | 24,579 | 18,490 | 15,743 | 12,608 |
| Property and capital taxes | **7,774** | 7,123 | 6,127 | 5,156 | 4,332 | 3,818 |
| Total expenses | **572,906** | 490,429 | 424,892 | 289,540 | 211,174 | 164,434 |
| Income before income taxes, subsidiary earnings and extraordinary item | **50,135** | 48,909 | 44,875 | 37,505 | 29,039 | 24,906 |
| Income taxes | **23,908** | 23,064 | 21,583 | 18,114 | 14,829 | 12,202 |
| Income before subsidiary earnings and extraordinary item | **26,227** | 25,845 | 23,292 | 19,391 | 14,210 | 12,704 |
| Share of earnings of Major Holdings & Developments Limited | **532** | 715 | 991 | — | — | — |
| Income before extraordinary item | **26,759** | 26,560 | 24,283 | 19,391 | 14,210 | 12,704 |
| Write-off of expenditures in Canadian Arctic Gas Study Limited | **—** | 3,940 | — | — | — | — |
| Net income for the period | **26,759** | 22,620 | 24,283 | 19,391 | 14,210 | 12,704 |
| Preference share dividends | **4,835** | 3,283 | 3,158 | 3,180 | 998 | 1,010 |
| Earnings applicable to common shares | **$ 21,924** | $ 19,337 | $ 21,125 | $ 16,211 | $ 13,212 | $ 11,694 |
| Basic earnings per common share:* | | | | | | |
| Before extraordinary item | **$ 1.22** | $ 1.30 | $ 1.34 | $ 1.07 | $ .87 | $ .77 |
| After extraordinary item | **$ 1.22** | $ 1.08 | $ 1.34 | $ 1.07 | $ .87 | $ .77 |
| Fully diluted earnings per common share: | | | | | | |
| Before extraordinary item | **$ 1.16** | $ 1.22 | $ 1.25 | $ 1.03 | $ .87 | $ .77 |
| After extraordinary item | **$ 1.16** | $ 1.03 | $ 1.25 | $ 1.03 | $ .87 | $ .77 |
| Dividends declared per common share** | **.74** | $ .74 | $ .69 | $ .64 | $ .64 | $ .64 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Condensed balance sheet** ($000's) | | | | | | |
| Assets: | | | | | | |
| Properties | **$600,932** | $546,921 | $491,843 | $447,256 | $406,488 | $365,924 |
| Less accumulated depreciation | **105,698** | 96,712 | 87,056 | 78,765 | 73,351 | 66,973 |
| | **495,234** | 450,209 | 404,787 | 368,491 | 333,137 | 298,951 |
| Current assets | **169,810** | 132,648 | 115,727 | 119,049 | 77,131 | 53,075 |
| Deferred charges | **9,692** | 13,473 | 17,711 | 16,006 | 13,751 | 13,247 |
| Other assets | **60,396** | 20,921 | 12,447 | 5,900 | 5,876 | 1,250 |
| Total | **$735,132** | $617,251 | $550,672 | $509,446 | $429,895 | $366,523 |
| Liabilities: | | | | | | |
| Shareholders' equity: | | | | | | |
| Preference shares | **$ 83,508** | $ 44,149 | $ 42,445 | $ 43,014 | $ 43,309 | $ 18,414 |
| Common shares | **79,457** | 56,468 | 56,393 | 31,346 | 31,346 | 31,346 |
| Retained earnings | **69,049** | 82,804 | 76,615 | 67,494 | 61,053 | 57,513 |
| Total | **232,014** | 183,421 | 175,453 | 141,854 | 135,708 | 107,273 |
| Long-term debt | **252,060** | 257,578 | 212,220 | 187,506 | 164,908 | 153,599 |
| Deferred income taxes | **100,305** | 78,035 | 70,940 | 63,890 | 56,334 | 47,954 |
| Current liabilities | **150,753** | 98,217 | 92,059 | 116,196 | 72,945 | 57,697 |
| Total | **$735,132** | $617,251 | $550,672 | $509,446 | $429,895 | $366,523 |

*On basis of the weighted average number of shares outstanding during the year.
**Annual rate per class A common share at year end.

## Financial Statistics
Union Gas Limited

| | Fiscal years ended March 31 | | | | | |
|---|---|---|---|---|---|---|
| | **1979** | 1978 | 1977 | 1976 | 1975 | 1974 |
| **Statement of changes in financial position** ($000's) | | | | | | |
| Funds provided: | | | | | | |
| Operations | **$ 69,025** | $ 50,302 | $ 44,920 | $ 36,948 | $ 32,251 | $ 26,066 |
| Long-term debt issued | **—** | 48,930 | 39,151 | 29,432 | 27,522 | 19,616 |
| Proceeds from share issues: | | | | | | |
| common | **—** | — | 18,929 | — | — | — |
| preference | **39,696** | 1,980 | — | — | 24,049 | — |
| Common shares issued for real estate investment | **—** | — | 4,970 | — | — | — |
| Total | **$108,721** | $101,212 | $107,970 | $ 66,380 | $ 83,822 | $ 45,682 |
| Funds applied: | | | | | | |
| Net expenditures on utility properties | **$ 61,173** | $ 59,718 | $ 49,156 | $ 44,815 | $ 42,807 | $ 27,698 |
| Western Canada exploration and development | **35,277** | 8,125 | 1,211 | 610 | 998 | 426 |
| Retirement of long-term debt | **5,518** | 4,642 | 15,286 | 7,402 | 16,691 | 8,292 |
| Dividends declared: | | | | | | |
| common shares | **12,787** | 13,050 | 10,758 | 9,672 | 9,672 | 9,672 |
| preference shares | **4,601** | 3,283 | 3,158 | 3,180 | 998 | 1,010 |
| Purchase of preference shares for cancellation | **638** | 212 | 569 | 295 | 105 | 572 |
| Canadian Arctic Gas Study Limited expenditures | **—** | 1,288 | 1,879 | 1,887 | 889 | 728 |
| Investment in and advances to | | | | | | |
| Major Holdings & Developments Limited | **4,000** | — | 5,275 | 120 | 2,800 | — |
| Deferred charges and other items | **101** | 131 | (−)137 | (−)268 | 54 | 404 |
| Increase (decrease) in working capital | **(−)15,374** | 10,763 | 20,815 | (−)1,333 | 8,808 | (−)3,120 |
| Total | **$108,721** | $101,212 | $107,970 | $ 66,380 | $ 83,822 | $ 45,682 |

| | **1979** | 1978 | 1977 | 1976 | 1975 | 1974 |
|---|---|---|---|---|---|---|
| **Other financial statistics** | | | | | | |
| Equity per common share: | | | | | | |
| Common shares outstanding (000's) | **17,971** | 17,941 | 17,933 | 15,112 | 15,112 | 15,112 |
| Equity per share | **$ 8.26** | $ 7.76 | $ 7.42 | $ 6.54 | $ 6.11 | $ 5.88 |
| Properties ($000's) | | | | | | |
| Gross book value beginning of year | **$557,786** | $494,628 | $449,063 | $408,327 | $367,174 | $341,820 |
| Additions: | | | | | | |
| Plant additions | **38,132** | 41,038 | 33,554 | 34,721 | 36,012 | 20,395 |
| Plant replacements | **22,801** | 18,177 | 15,179 | 10,049 | 6,866 | 7,313 |
| Western Canada exploration and development | **35,137** | 8,080 | 978 | — | 589 | 426 |
| Gross additions and replacements | **96,070** | 67,295 | 49,711 | 44,770 | 43,467 | 28,134 |
| Retirements: | | | | | | |
| Gross value of plant retired | **6,921** | 4,137 | 4,146 | 4,034 | 2,314 | 2,780 |
| Net additions to Properties | **89,149** | 63,158 | 45,565 | 40,736 | 41,153 | 25,354 |
| Gross book value end of year | **$646,935** | $557,786 | $494,628 | $449,063 | $408,327 | $367,174 |

## Operating Statistics
Union Gas Limited

| | 1979 (metric) | 1979 | 1978 | 1977 | 1976 | 1975 | 1974 |
|---|---|---|---|---|---|---|---|
| | | Fiscal years ended March 31 | | | | | |
| **Gas marketing** | | | | | | | |
| Customers (end of year): | | | | | | | |
| Residential | | **391,288** | 381,685 | 371,731 | 360,943 | 347,232 | 336,552 |
| Commercial | | **43,676** | 42,380 | 41,481 | 39,252 | 38,279 | 37,087 |
| Industrial | | **4,573** | 4,397 | 4,360 | 4,266 | 4,178 | 3,918 |
| Other utilities | | **8** | 8 | 9 | 10 | 11 | 11 |
| Total | | **439,545** | 428,470 | 417,581 | 404,471 | 389,700 | 377,568 |
| Sales: | | | | | | | |
| Residential | 1 418 | **50,313** | 49,111 | 52,216 | 46,273 | 45,786 | 44,285 |
| Commercial | 1 199 | **42,545** | 41,000 | 42,382 | 39,072 | 37,866 | 34,230 |
| Industrial | 3 952 | **140,182** | 144,969 | 144,884 | 142,396 | 143,810 | 136,897 |
| Other utilities | 177 | **6,356** | 5,835 | 6,196 | 5,853 | 5,656 | 5,086 |
| Total | 6 746 | **239,396** | 240,915 | 245,678 | 233,594 | 233,118 | 220,498 |
| Revenue ($000's): | | | | | | | |
| Residential | | **$164,323** | $138,380 | $125,521 | $ 82,616 | $ 64,548 | $ 53,471 |
| Commercial | | **109,388** | 91,121 | 82,416 | 57,152 | 43,109 | 33,317 |
| Industrial | | **299,719** | 261,883 | 223,743 | 157,437 | 110,198 | 84,362 |
| Other utilities | | **14,510** | 11,311 | 10,314 | 6,813 | 4,616 | 3,442 |
| Total | | **$587,940** | $502,695 | $441,994 | $304,018 | $222,471 | $174,592 |
| Average gas use per customer: | | | | | | | |
| Residential | 3 685 | **130.8** | 131.2 | 143.4 | 131.1 | 134.7 | 134.6 |
| Commercial | 28 056 | **995.8** | 987.4 | 1,052.5 | 1,014.3 | 1,013.8 | 947.5 |
| Degree day deficiency (celsius) | 4 091 | | 4 166 | 4 338 | 3 751 | 3 849 | 3 788 |
| **Gas supply** | | | | | | | |
| Source: | | | | | | | |
| Pipeline suppliers | 6 863 | **242,282** | 248,400 | 226,644 | 254,164 | 242,244 | 239,665 |
| Ontario producers | 137 | **4,829** | 4,004 | 3,185 | 3,205 | 3,790 | 4,812 |
| Petrosar | 189 | **6,680** | 700 | — | — | — | — |
| Produced from Company wells | 25 | **887** | 674 | 631 | 2,400 | 1,759 | 780 |
| Total | 7 214 | **254,678** | 253,778 | 230,460 | 259,769 | 247,793 | 245,257 |
| **Storage and transmission operation** | | | | | | | |
| Gas delivered for other utilities under storage and transportation contracts | 5 252 | **185,409** | 161,282 | 178,632 | 166,393 | 168,966 | 163,300 |
| Gas into storage | 2 351 | **82,985** | 85,171 | 59,754 | 74,331 | 55,320 | 55,597 |
| Gas out of storage | 2 196 | **77,524** | 71,945 | 84,939 | 51,061 | 52,422 | 37,154 |
| Maximum day send out: | | | | | | | |
| From storage | 48 | **1,699** | 1,439 | 1,426 | 1,248 | 1,170 | 987 |
| From total system | 72 | **2,546** | 2,381 | 2,460 | 2,231 | 1,879 | 1,903 |
| **System facilities** | | | | | | | |
| Kilometres of pipelines: | | | | | | | |
| Gathering and storage | 575 | | 589 | 660 | 679 | 677 | 742 |
| Transmission | 2 814 | | 2 845 | 2 896 | 2 919 | 2 864 | 2 824 |
| Distribution | 12 645 | | 12 312 | 12 008 | 11 625 | 11 316 | 11 023 |
| Total pipelines | 16 034 | | 15 746 | 15 564 | 15 223 | 14 857 | 14 589 |
| Compressor station horsepower/kilowatts | 89 927 | **120,545** | 120,545 | 94,145 | 92,985 | 73,785 | 65,785 |
| Working storage capacity | 2 731 | **96,395** | 96,395 | 92,490 | 87,384 | 81,956 | 61,427 |

The natural gas industry is converting to metric measurement, beginning in 1979. The measurement system is known as SI (Système International d'Unités). For 1979 gas volumes are stated in million cubic feet (MMCF) and million cubic metres ($10^6M^3$), except for average gas use per customer, which is stated in thousand cubic feet (MCF) and cubic metres ($M^3$). Degree day deficiency and pipeline length is expressed in SI units for all years and compressor station figures for 1979 are expressed in both measures.

## Union Gas Limited

Head Office: 50 Keil Drive North, Chatham, Ontario N7M 5M1

(Incorporated under the Laws of Ontario)

### Directors

Ralph M. Barford, Toronto
President, Valleydene Corporation Limited

George H. Blumenauer, Hamilton
Chairman of the Board and President, Otis Elevator Company Limited

John D. Bradley, Chatham
President, Bradley Farms Limited and First Chatham Corporation Limited

Frank Capewell, Chatham
Executive Vice-President, Union Gas Limited

John B. Cronyn, London
Company Director

C. Malim Harding, O.B.E., Toronto
Chairman of the Board, Harding Carpets Limited

Frederick W. P. Jones, LL.D., London
Financial Consultant

Joseph S. Land, Toronto
Chairman of the Board, IAC Limited

William G. Stewart, Chatham
President and Chief Executive Officer, Union Gas Limited

David G. Waldon, Toronto
Retired, former Chairman of the Board, Interprovincial Pipe Line Limited

William H. Watson, Chatham
President, Huron Construction Company Limited

Abram Wiebe, Waterloo
President, Major Holdings & Developments Limited

Donald J. Wright, Q.C., Toronto
Partner, Lang, Michener, Cranston, Farquharson and Wright

### Principal officers

C. Malim Harding, O.B.E., *Chairman of the Board*
William G. Stewart, *President and Chief Executive Officer*
Frank Capewell, *Executive Vice-President*
Henry B. Arndt, *Vice-President, Finance*
Stephen T. Bellringer, *Vice-President, Marketing*
R. Glen Caughey, *Vice-President, Corporate Planning and Development*
Francis M. Edgell, *Vice-President, Operations*
Donald C. Ingram, *Vice-President, Engineering and Gas Transmission*
John B. Jolley, Q.C., *Vice-President and General Counsel*
J. Edwin Mahoney, *Vice-President, Corporate Affairs*
John Webel, *Vice-President, Administration*
Glenn I. Wonnacott, *Vice-President, Corporate Personnel*
R. Gordon James, *Assistant Vice-President, Finance*
Edna Crawford, *Corporate Secretary*
Gerald E. Miller, *Treasurer*

### Transfer agent

Canada Permanent Trust Company
Preference Shares — all classes
Common Shares — Class A and B

### Registrars

Canada Permanent Trust Company
Preference Shares — all classes
Common Shares — Class A and B

Crown Trust Company
Common Shares — Class A and B

### Dividend disbursing agent

Canada Permanent Trust Company

### Annual meeting of shareholders

Shareholders are cordially invited to attend the Annual Meeting to be held at the Head Office of the Company, 50 Keil Drive North, Chatham, Ontario, on Wednesday, June 20, 1979 at 11 o'clock a.m. (Eastern Daylight Time).


Union Gas operates 15 459 kilometres of transmission and distribution lines serving homes, businesses and industries in 16 cities, 43 towns, 41 villages and 102 townships in Southwestern Ontario. Union's pipeline system also forms a vital link in the transmission network that delivers gas from Alberta to the East. During fiscal 1979, Union handled a total of 440 BCF of gas, of which 185 BCF was for use by other Eastern Canadian distribution companies. The total volume sold in Ontario during the same period was some 660 BCF. Union's extensive underground storage facilities afford natural gas customers throughout Ontario and Quebec a more secure supply during times of peak demand.

UNION GAS
LIMITED

1979 ANNUAL REPORT

Produced in Canada by Southam Murray Printing